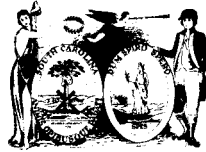


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

March 18, 2005

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Sava Senior Care
5300 West Sam Houston Parkway North
Houston, Texas 77041

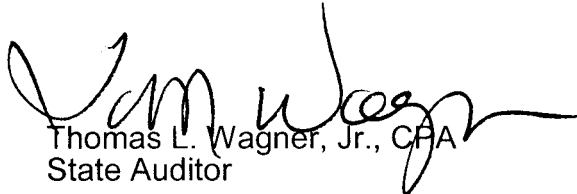
Re: AC# 3-MAE-J1 – GranCare South Carolina, Inc.
d/b/a Mariner Health Care of Sumter - East

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/ksg

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.
D/B/A MARINER HEALTH CARE OF SUMTER - EAST
SUMTER, SOUTH CAROLINA**

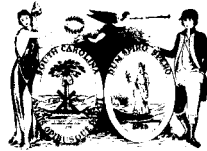
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-MAE-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING JANUARY 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JANUARY 1, 2003 THROUGH SEPTEMBER 30, 2003	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2001	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 10, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter – East, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter – East is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

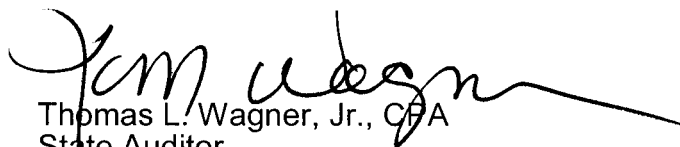
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter – East, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter – East dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 10, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-MAE-J1

01/01/03-
09/30/03

Interim Reimbursement Rate (1)	\$90.63
Adjusted Reimbursement Rate	<u>88.17</u>
Decrease in Reimbursement Rate	\$ <u><u>2.46</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

MARINER HEALTH CARE OF SUMTER – EAST
Computation of Adjusted Reimbursement Rate
For the Contract Period January 1, 2003 Through September 30, 2003
AC# 3-MAE-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.45	\$62.89	
Dietary		9.19	11.21	
Laundry/Housekeeping/Maintenance		<u>7.71</u>	<u>9.67</u>	
Subtotal	<u>\$5.86</u>	59.35	83.77	\$59.35
Administration & Medical Records	<u>\$3.00</u>	<u>9.77</u>	<u>12.77</u>	<u>9.77</u>
Subtotal		69.12	<u>\$96.54</u>	69.12
<u>Costs Not Subject to Standards:</u>				
Utilities		2.70		2.70
Special Services		.02		.02
Medical Supplies & Oxygen		2.84		2.84
Taxes and Insurance		2.26		2.26
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$76.94</u>		76.94
Inflation Factor (3.70%)				2.85
Cost of Capital				7.06
Cost of Capital Limitation				(.43)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.69
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.80)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$88.17</u>

MARINER HEALTH CARE OF SUMTER – EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,673,313	\$ -	\$26,651 (5) 1,518 (5) 5,010 (6) 22,542 (7)	\$2,617,592
Dietary	570,609	-	3,581 (5)	567,028
Laundry	106,764	-	868 (5)	105,896
Housekeeping	235,289	-	2,303 (5)	232,986
Maintenance	135,234	1,996 (6)	896 (5)	136,334
Administration & Medical Records	624,700	246 (3)	3,082 (5) 527 (5) 17,969 (6) 1,109 (7)	602,259
Utilities	179,152	-	12,762 (2) 1 (6)	166,389
Special Services	1,436	5,134 (6)	1,657 (5) 3,445 (7)	1,468
Medical Supplies & Oxygen	212,509	-	37,556 (7)	174,953
Taxes and Insurance	152,782	-	6,587 (3) 6,878 (4) 17 (6)	139,300
Legal Fees	-	-	-	-

MARINER HEALTH CARE OF SUMTER – EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Cost of Capital	407,683	12,854 (1) <u>29,520 (8)</u>	14,640 (6)	435,417
Subtotal	5,299,471	49,750	169,599	5,179,622
Ancillary	218,052	-	-	218,052
Nonallowable	2,787	6,878 (4) 41,083 (5) 30,507 (6) <u>64,652 (7)</u>	12,854 (1) 29,520 (8)	103,533
Total Operating Expenses	<u>\$5,520,310</u>	<u>\$192,870</u>	<u>\$211,973</u>	<u>\$5,501,207</u>
Total Patient Days	<u>61,670</u>	<u>-</u>	<u>-</u>	<u>61,670</u>
Total Beds	<u>176</u>			

MARINER HEALTH CARE OF SUMTER – EAST
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$223,229	
	Cost of Capital	12,854	
	Accumulated Depreciation		\$220,100
	Other Equity		3,129
	Nonallowable		12,854
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	12,762	
	Utilities		12,762
	To adjust electricity expense HIM-15-1, Sections 2302.1 and 2304		
3	Accrued Property Taxes	8,060	
	Administration	246	
	Taxes and Insurance		6,587
	Retained Earnings		1,719
	To adjust property taxes and related accrual and reclassify expense to the proper cost center HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
4	Nonallowable	6,878	
	Taxes and Insurance		6,878
	To adjust liability insurance expense HIM-15-1, Section 2304		
5	Nonallowable	41,083	
	Nursing		26,651
	Restorative		1,518
	Dietary		3,581
	Laundry		868
	Housekeeping		2,303
	Maintenance		896
	Administration		3,082
	Medical Records		527
	Special Services		1,657
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SUMTER – EAST
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Maintenance	1,996	
	Special Services	5,134	
	Nonallowable	30,507	
	Nursing		5,010
	Administration		17,969
	Utilities		1
	Taxes and Insurance		17
	Cost of Capital		14,640
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	64,652	
	Nursing		22,542
	Administration		1,109
	Medical Supplies		37,556
	Special Services		3,445
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Cost of Capital	29,520	
	Nonallowable		29,520
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$436,921</u>	<u>\$436,921</u>

Due to the nature of compliance reporting,
adjustment descriptions and references
contained in the preceding Adjustment
Report are provided for general guidance
only and are not intended to be all-inclusive.

MARINER HEALTH CARE OF SUMTER – EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,381,928	3,381,928	
Improvements Since 1981	628,233	668,993	
Accumulated Depreciation at 9/30/01	<u>(1,436,488)</u>	<u>(1,235,204)</u>	
Deemed Depreciated Value	2,573,673	2,815,717	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	148,501	162,467	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	148,501	162,467	
Depreciation Expense	78,760	59,503	
Amortization Expense	427	426	
Capital Related Income Offsets	(7,334)	(7,333)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	220,354	215,063	\$435,417
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>30,835</u>	<u>61,670</u>
Cost of Capital Per Diem	\$ <u>7.15</u>	\$ <u>6.97</u>	\$ <u>7.06</u>

MARINER HEALTH CARE OF SUMTER – EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MAE-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.13	\$2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.12</u>	<u>\$6.12</u>
Reimbursable Cost of Capital Per Diem	\$6.63	
Cost of Capital Per Diem	<u>7.06</u>	
Cost of Capital Per Diem Limitation	<u>\$(.43)</u>	

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